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C O N F I D E N T I A L SECTION 01 OF 07 JAKARTA 002917

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C O R R E C T E D C O P Y - (P A R A M A R K I N G)

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TAGS: PREL MASS MARR ID

SUBJECT: YOUR VISIT TO INDONESIA: MOVING OUR RENEWED
BILATERAL RELATIONSHIP FORWARD

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Classified By: Charge W. L. Amselem; Reasons 1.4 (b) and (d).

¶1. (U) Madame Secretary: Your team in Jakarta warmly welcomes your March 14-15 visit to Indonesia, the most senior USG visit since Secretary Powell's of January 4-6, 2005. We have underway preparations to ensure a visit high in substance and symbolism.

Introduction

¶2. (C) Summary: Your decision to move quickly in November to normalize the military-to-military relationship with Indonesia has given a new, more cooperative quality to bilateral relations across a range of interests. Although our bilateral cooperation improved following Indonesia's landmark 2004 national elections, SBY's inauguration in October 2004, and the splendid world-beating U.S. response to the December 2004 tsunami, our military aid "embargo" proved a major irritant to SBY and the Indonesian political class, and an impediment to working in key areas of mutual concern. Indonesians gave a collective sigh of relief when we ended the very public sanctions we had imposed for abuses that occurred under a different government in a very different era. On learning of the Administration's waiver of conditions on military cooperation, an enthusiastic Indonesian President Susilo Bambang Yudhoyono (SBY) privately told his staff that "we can now have a new relationship with the United States." The Indonesia Government has signaled in a variety of ways a willingness to begin in earnest a new, productive partnership with us.

¶3. (C) SBY understands that your personal involvement and commitment made possible our policy shift. He will want to work with you to craft the direction of our renewed relations. We have heard from senior GOI officials that in addition to discussing military relations, the President and his ministers will raise their hopes for continuing the CT cooperation that has produced excellent results; exchange thoughts with you on the role of China in SE Asia; and discuss the threat posed by avian influenza. We seek to assure SBY of our support for Indonesia's new democracy and commitment to reform, and that we look to Indonesia to adopt a greater role in handling regional and global issues in partnership with us. Your visit provides an opportunity for you to brief the GOI on developments in Iraq, Middle East, Iran, the Korean peninsula, and China. We need also remind SBY that failure to address key issues -- such as holding officials responsible for misdeeds including human rights violations -- could lead to a return of restrictions. We want Indonesia to sign an Article 98 waiver and move its UN voting record closer to us on key issues and away from a fixation on "Non-aligned" positions.

¶4. (C) SBY seeks progress on many fronts: consolidating gains against terrorists; pushing economic reform and tsunami reconstruction under the leadership of a new economic team; and promoting military reform, in which we can now play a full partnership role. Much work remains to solidify Indonesian democracy, *inter alia*, combating corruption, reforming the judiciary, improving government responsiveness, and addressing still lethal sectarian and ethnic divides. That said, however, Indonesia, the world's largest Muslim-majority nation, has put in place democratic structures over the last seven years, making it the world's third largest democracy, and emerged as an example for others of the transformational power of freedom.

Objectives of Your Visit

¶5. (C) We see your visit as a major opportunity to affirm the Indonesian model and pledge continued support. Building on the very positive Indonesian reaction to changes in bilateral military relations, you could chip away at attitudes that remain from Indonesia's authoritarian and "non-aligned" days, bolster continued efforts for political and economic reform, and push democratic Indonesia to take greater responsibility to address regional and global issues in partnership with us. You could also pursue the following objectives:

a) Urge Indonesia, the world's third-largest democracy, to help us push democratic progress and religious tolerance;

b) Move our counterterrorism agenda forward by urging

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strengthened legal reforms and greater internal coordination; congratulate the government for recent successes) including the neutralizing of terrorist mass murderer Azahari last November;

c) Propose further military cooperation and continued support for the modernization and professionalization of Indonesia's military and efforts to bring it fully under civilian control, paying continued attention to human rights and accountability; note Administration efforts to increase engagement and funding for assistance with maritime security issues and strengthening humanitarian response capabilities;

d) Encourage Indonesian economic reform and pledge U.S. support;

e) Underline your support for an Article 98 agreement, noting the personal commitment that POTUS made and you implemented to make normal military relations possible, and explain that such an agreement would benefit both parties and assist during discussions with and within Congress this year on military relations with Indonesia;

f) Affirm that Indonesia has "no better friend than the United States." You can remind Indonesia of our huge aid program, including our response to the tsunami and to the AI threat. We see Indonesia as a fellow democracy with shared values of tolerance and pluralism, as a nation of crucial importance to the region and the world, and one we want to succeed.

Ensuring Democracy and Moderate Islam Prevail

16. (C) We have a great stake in helping consolidate democracy in Indonesia, the world's fourth most populous nation and its largest Muslim-majority country. Indonesia's emerging success as a democracy has profound implications for our bilateral objectives, for our broader goals in Asia and throughout the developing world, most notably among other Muslim-majority countries. Within Indonesia, democracy has created opportunities for a U.S.-Indonesia partnership that supports mutual objectives in key areas such as combating extremism and terrorism, and promoting human rights, security cooperation, economic development and investment. Indonesia provides a strong democratic example for countries that lag in political freedom and stands out as a living example of Islam's compatibility with freedom and modernity.

17. (C) Indonesia has established new foundations for democracy over the past seven years. The amended Constitution provides more effective checks and balances among the executive, legislative and judicial branches. The country now has a freely-elected legislature with a chamber representing different regions, but security forces no longer have unelected seats in the House of Representatives (DPR). The People's Consultative Assembly (MPR) resoundingly defeated attempts by Islamist parties to inject Shari'a law into the Constitution. The free and fair 2004 national elections put into practice a new electoral framework with a vibrant multi-party system. The country's first direct presidential election defeated an incumbent President and brought reform-minded Yudhoyono into office. Indonesia carried out a huge decentralization effort that has shifted much authority from central government to local officials. A free, open, and frequently obstreperous press has replaced a tightly controlled and censored media. Our assistance programs and diplomatic efforts have supported these developments.

18. (C) Democratic progress has made Indonesia a player in the ongoing struggle between democratic modernization and militant retrograde Islam. As the world's largest Muslim-majority country, Indonesia suffers the same radical, hate-filled strains of thought that afflict the rest of the Islamic world. At the same time, Islam in Indonesia -- especially its syncretic Javanese version -- has a long history of moderation, combining Islamic beliefs with modernization and outreach to the rest of the world. We have worked with Indonesia's civic organizations -- dominated by Islamic groups -- to make the point that democracy, modernization, and Islam can work together; Indonesians have adopted this view and created one of the world's largest democracies. We must show that we can forge close, long-term mutually beneficial ties with this fourteen percent of the Islamic world (more Muslims live here -- nearly 200 million

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-- than in all the Middle East).

Encouraging Engagement in Region and Globally

19. (C) SBY's focus on repairing Indonesia's image, and on gradually building a leadership position on the world stage befitting Indonesia's size, gives the foreign policy apparatus an opportunity to change Indonesia's role in international fora. We need Indonesia to take the side of democracy in world debates and act as a moderating influence on more radical regimes in the Middle East. Indonesia's historical non-aligned orientation and jealous safeguarding of national sovereignty have made it cautious in entering

into bilateral agreements and reluctant to single out wrongdoers in multilateral fora. Indonesia's decision to abstain in the IAEA vote February 2 to refer the Iran proliferation case to the UNSC demonstrated its continued difficulties when confronted by issues in which it needs to take a responsible public stand with other democracies of the world community. Indonesia has begun to reassert its traditional leadership role in ASEAN and made tentative attempts to press for democratic norms within ASEAN's nascent political community. ASEAN members made helpful statements in Kuala Lumpur about the lack of progress in Burma, and agreed to send Malaysian FM Hamid to Rangoon. We have encouraged SBY to carry a strong message of reform to the Burmese junta during his visit there at the end of February.

¶10. (C) Indonesia should increase engagement in international security efforts, including maritime security and the Proliferation Security Initiative (PSI). Indonesia has worked with Malaysia, Singapore, Thailand and the International Maritime Organization to improve maritime security in the strategic Strait of Malacca, but needs more effective measures in this and other areas. Indonesia professes strong support for non-proliferation, but has not endorsed the PSI Statement of Principles. It should see PSI as a means to enhance cooperation as part of our mil-mil relationship and as an area in which it should take greater responsibility.

Significant Progress on Terrorism; Problems Remain

¶11. (C) The bombings in Bali October 1 left no doubt that terrorism remains a significant threat. Jemaah Islamiyah (JI), the most active terror group in Indonesia and one of the world's deadliest, has conducted most of the dozens of bombings in Indonesia since 2000, killing hundreds of persons (mostly Indonesians). Founded in 1992 as an offshoot of the Darul Islam network that for decades sought to turn Indonesia into an Islamic state, JI has as its ultimate goal the establishment of an Islamic caliphate that spans the southern Philippines, Malaysia, Singapore, Indonesia, and southern Thailand. JI's leaders (including its now imprisoned "spiritual" leader Abu Bakar Ba'asyir or "ABB") returned to Indonesia from exile after Suharto's fall in 1998. Thanks to the GOI's recent success in taking down bombing mastermind Azahari we see a much greater understanding within the GOI and the population of the dangers posed by these radicals. We see the greatest public commitment to act expressed by leaders since the first Bali bombings in 2002. In your discussions with Yudhoyono and others you could stress the importance of government efforts to achieve clear public understanding that jihadist radicalism has no place in Indonesia.

Reform of the Indonesian Military

¶12. (C) SBY, a retired General, has continued the reform of the Indonesian Armed Forces (TNI) begun after the fall of Suharto. As Defense Minister he has a strong-willed civilian military expert, Juwono Sudarsono, who also served as Minister of Defense in Gus Dur's cabinet. Juwono's Ministry implemented the TNI law enacted in September 2004 and has in preparation legislation to bring TNI fully under control of the Ministry. Under Juwono, TNI professionalism and respect for human rights continue to improve; TNI has stayed out of politics and submitted to increased civilian control; TNI has observed legal restrictions on its domestic CT involvement and allowed the Indonesian National Police to take the lead on the issue; and TNI has fulfilled its obligations under the GOI-GAM MOU ending three decades of conflict in Aceh. Although making progress, the GOI has not yet ended TNI's

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business activities and provided it a realistic budget -- most of TNI's budget comes from "self-financing." The appointment of Marshall Djoko Suyanto to lead the TNI should move reform even further given his reputation as the most open-minded senior general. While TNI respect for human rights and punishment of individuals who abuse rights has increased, accountability has remained incomplete in the case of Wamang and other suspects remains a high priority for us.

Indonesia's Judicial Sector and Corruption

¶15. (C) Indonesia's judicial sector must overcome the corruption, ineffectiveness and pervasive impunity from which it suffered during the Suharto regime. A broad range of U.S. programs assists Indonesia to do so. We successfully encouraged the Attorney General to establish in September a counter terrorism and transnational crime task force and we will support it financially. The AGO recently named someone to head the task force, but we still await significant steps by the AGO to create the body. Our ICITAP and ATA training programs have helped develop the operational and organizational capacity of the Indonesian National Police (INP) as highlighted by the success of U.S.-trained "Task Force 88," which killed JI bomber and mass murderer Azahari last November in the course of a well-executed raid on a terrorist safehouse. USAID has a multi-year rule of law initiative focusing on the courts, the AG's office and other judicial institutions, including the Corruption Eradication

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Commission (KPK). CT cooperation has led to arrests, prosecutions and convictions of large numbers of terrorists. Assistance to the judicial sector also helps SBY pursue his high priority anti-corruption agenda and create a better

climate for foreign investment.

Public Diplomacy Environment

¶16. (C) Indonesian institutions have proven remarkably open and receptive to U.S. public diplomacy efforts. The point that Indonesia has "no better friend than the U.S." seems widely recognized among the elite who have benefited from U.S. education (a large number of the cabinet have studied in the U.S., often under USG sponsorship) as well as the man in the street. While public opinion polls show disagreement with many U.S. policies, other polling results and our daily experience show a substantial positive feeling about the U.S., and our values and social institutions. Our effective response and significant contributions to the tsunami relief had a tremendous impact, receiving wide publicity and praise in Indonesia, and helped turn around the decline in our approval ratings. More important, our access to all levels of society provides opportunity for aggressive public affairs programming. We have set up American Corners throughout Indonesia -- half in Islamic universities -- and carry out a large program of student exchanges with Islamic institutions. Media remain receptive to training programs and participation in State Department reporting tours. A large Fulbright program, an active International Visitor program, and an aggressive outreach to send younger people to the U.S. for a year in high-school all enhance mutual understanding by exposing the next generation of leaders to a deeper understanding of the U.S.

Economic Reform

¶17. (SBU) Although Indonesia's record on counterterrorism and military reform receive the bulk of attention in the U.S., President Yudhoyono's domestic political future will rise or fall on the success of his economic reform program. Indonesia, one of the "Asian Tigers" before the 1997-98 financial crisis, enjoyed annual GDP growth of over seven percent from 1990-96. The crisis triggered the collapse of Indonesia's state-centered, cronyist development model, and the country has since made halting progress toward a more open, private sector economic system. Yudhoyono came into office with a ringing pledge to implement a "pro-growth, pro-poor, and pro-jobs" economic policy that, for the first time, explicitly recognized the private sector as a key partner in development. He set the ambitious target of raising Indonesia's average GDP growth from 2006-09 to 6.6 from its current 5.5 percent level, and halving the poverty and unemployment rates. The Indonesian and foreign business communities responded warmly to Yudhoyono's agenda, and continue to support him strongly.

¶18. (SBU) Aside from the tsunami disaster, the defining moment of Yudhoyono's first year in office proved his bold decision to raise subsidized fuel prices by an average of 126 percent on October 1, 2005. The fuel subsidy cuts open the door to the most significant expansion of GOI social and development spending in a decade, and Indonesia's FY 2006 budget shows a 28 percent increase in non-interest, non-subsidy spending. But the subsidy cuts caused hardship to millions of low-income Indonesians accustomed to decades of cheap gasoline and kerosene, led to a surge in inflation and took some steam out of the economy. In order to raise growth, SBY's highly regarded Coordinating Minister for Economics, Dr. Boediono, has said that the GOI will ramp up government development spending and issue a package of measures to improve the business climate. As Indonesia's second largest non-oil and gas export market and the leading investor in the energy sector, we have an interest in Boediono's success. Getting ExxonMobil's long-delayed USD 3 billion Cepu oilfield project in East Java off the ground has shaped up as a test of Boediono's ability to cut through bureaucratic red tape.

U.S. Assistance Programs

¶19. (SBU) For more than 40 years, the U.S. has had an active bilateral assistance program in education, public health, support for democracy, and economic growth including

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infrastructure development. In FY05 the bilateral USAID program came in at more than \$135 million (appropriated dollars and food aid combined) and we actively work with Indonesian partners in areas Indonesia has identified as of highest priority. The USAID program in Indonesia aims to "Help Indonesia Succeed." The USAID country-wide assistance program works with the GOI, local governments and private partners, including civil society, to improve the quality of basic education; improve the delivery of essential public services at the community level, including health services and clean water; create a better business, trade and investment environment that will support economic growth that generates new and better jobs; promote more accountable and transparent governance at the national and local levels; and promote biodiversity and environmental protection. Ensuring that Indonesians know of this contribution remains a key part of our public diplomacy and the mission, through PAS and USAID, conducts active campaigns to get this message out to the media.

¶20. (SBU) These programs allow the U.S. to lay the foundation for a better future for the people of Indonesia, while responding rapidly to more immediate requirements as varied as response to the Indian Ocean tsunami disaster; implementation of the Aceh peace accord; avian influenza and polio outbreaks; and an HIV/AIDS epidemic that risks breaking

out. Anti-corruption support, including a focus on "governance" issues in all sectors in which we work, as well as specific institutional support for justice sector reform, addresses one of the most difficult economic and democratic development issues faced by Indonesia today, and one of the highest priorities of SBY's government. With USAID and other assistance, continued progress in the fight against corruption and better delivery of basic services will help Indonesia qualify for full support from the Millennium Challenge Corporation. Indonesia just received MCC "threshold status."

Assistance Programs for Aceh

¶21. (SBU) The U.S. has provided Indonesia tsunami recovery and reconstruction assistance totaling \$400.1 million (and U.S. the private sector contributed more than \$1.4 billion to the regions). USAID implemented more than \$43 million for relief and transition activities in the weeks following the tsunami and earthquake. We have directed the remaining \$357

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million to U.S.-managed reconstruction activities, debt relief (\$20.1 million), a contribution to the jointly-managed Government of Indonesia-World Bank Multi-donor Trust Fund (\$10 million), and activities of the U.S. Trade and Development Agency (\$2.5 million). The U.S. will rebuild the road from Banda Aceh to Meulaboh and other vital infrastructure, restore livelihoods, and improve essential basic services (health, education, water, sanitation, and environment) while strengthening local governance capacity to manage these services. We provide technical assistance to develop national and local disaster planning and preparedness, including early warning systems. We have programmed more than \$10 million to assist the implementation of the landmark peace agreement between the GOI and Free Aceh Movement (GAM) separatist movement. Our programs promote public understanding and support of the agreement, help integrate former combatants into Acehenese society and sustain community-based development.

Avian Influenza

¶22. (SBU) Indonesia's size and complexity complicated its response to H5N1 avian influenza (AI), and while we should praise Indonesia's efforts to prepare for a potential pandemic, much work remains. Of a total 28 confirmed human cases since July 2005, 20 have proven fatal, a number second only to Vietnam. Since SBY designated Coordinating Minister for People's Welfare Aburizal Bakrie to coordinate its AI activities, the GOI has developed an initial AI preparedness framework, but must improve coordination among health, agriculture and other sectors. Since the first confirmed AI patient in July 2005, Indonesia has responded with case investigations, has proven quick to report findings, and shared samples for confirmation with international laboratories. The Ministry of Health (MOH) has established outbreak response teams to investigate reported human cases. The U.S. Navy Medical Research Unit (NAMRU-2) in Jakarta has supported the Health Ministry through its 24-hospital

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influenza surveillance system, initial laboratory testing for the AI virus in hundreds of human samples, and outbreak investigations. We have exchanged draft MOU's and expect to begin intensive negotiations soon to re-establish NAMRU-2's long-term legal status.

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